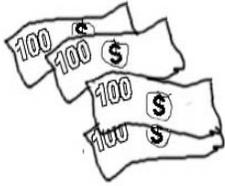


Basic Cash Flow Model



- A Cash Flow projection is an estimate of cash generated from the project over a period of time. It is not just the initial cash returned.
- Cash Flow (CF) is basically the cash available after all expenses are paid. Cash Flow analysis considers the coverage of expenses and debt service. Debt service consists of the principal and interest payments. The money that remains after paying such expenses is the Cash Flow.

A summarized Cash Flow schedule for an Income Property for one year could be as follows:

Gross Income (Gross Revenue)	\$ 200,000
less: Losses (or bad debts)	2,000
plus: miscellaneous income	1,000
equal: Effective Gross Income	199,000
less: Operating Expenses	70,000
less: Replacement Reserve	10,000
equal: Net Operating Income	119,000
less: Interest	75,000
less: Principal payment	8,250
equal: Cash Flow	\$ 35,750

Note: For Cash Flow projections of a new development, losses would not be appropriate but Brokerage Commissions paid on lot sales would be deducted from Gross Income. Instead of Replacement Reserves, a Cash Flow projection for a new development would consider Contingency Funds. This Cash Flow model is a Before Tax model.

CASH FLOW PROBLEMS

1. If expenses are \$ 175,000, debt service is \$ 110,000 and gross revenue is \$ 300,000, what is the indicated cash flow amount ?
2. What is the difference between Net Operating Income and Cash Flow ?
3. GIVEN: effective gross income is \$ 57,500, expenses are \$ 11,000, reserves are \$ 1500, principal and interest is \$ 12,000, bad debts are \$ 2,000. What is Cash Flow ?
4. GIVEN: cash flow is \$ 92,000, NOI is \$ 117,250, bad debts are \$ 3,000. What is the total of principal and interest payments?
5. GIVEN: effective gross income is \$ 78,125, expenses & reserves are \$ 32,150, principal is \$ 3,000 and interest is \$ 31,000. What is Cash Flow ?

Cash Flow Problems Answers:

1 – \$ 15,000, 2 – Debt Service, 3 – \$ 33,000, 4 – \$ 25,250, 5 – \$ 11,975